



INTERNAL AUDIT DEPARTMENT

INTEROFFICE MEMORANDUM

Date: July 15, 2009

To: Honorable Mayor Ron Jones
Members of the City Council
Members of the Audit Committee

cc: Priscilla Wilson, Senior Managing Director, Human Resources
Robby Neill, Risk Manager
Brad Neighbor, City Attorney

From: Craig Hametner, City Auditor

Subject: Audit Investigation into Fraudulent Payments for Insurance Claims –
Follow-up

This is a follow-up of the memo "Audit Investigation into Fraudulent Payments for Insurance Claims" issued on March 28, 2008.

We recommended the following in the original memo:

- Segregate duties for receiving, investigating, and approving insurance claims.
- The department director will review and authorize payment for all claims.
- Administrative staff will not be authorized to approve any payments.
- Computer access rights for administrative staff will be restricted to data entry only and will have no approval authority.
- Ensure all claims are for legitimate property owners and the damaged property has been investigated and known to actually exist.
- All checks are mailed to the claimant and not picked up by City employees.
- All claims will be filed first with City Secretary.
- The affected department manager will be apprised of the final resolution of the claim. The manager will reconcile the claim to his records. All discrepancies will be immediately investigated by a party other than the employee receiving or investigating the claim.

The following are the recommendations that were noted with follow-up results:

1. Segregate duties of receiving, investigating, and approving insurance claims.

Follow-up: The duties of insurance claims are now segregated. All claims are first logged with the City Secretary which they will scan and give it a claim number. The original claim form is given to Risk Management which is then logged by the Administrative Assistant. The claim form is then given to the Insurance and Claims Administrator who will then conduct his investigation of the claim by submitting it to the affected department which will then request the "Accident Injury Report" (AIR) if one has not been submitted. The City will then accept liability or not. If it is found that the City is at fault then the Insurance and Claims Administrator will start a Claim Payment Documentation unless if the settlement is over \$10,000 which will then go for review to the Claim's Committee. Once all information is gathered, a packet is put together which is then approved by the Risk Management Director. Subsequently, the packet is forwarded to Finance for Finance Review and approval. Once the Claim Payment Documentation is signed by all three individuals, the Vendor Application is given to the Administrative Assistant in Finance to enter the vendor into the Finance System. The Administrative Assistant in Risk Management is then given approval to process payment for the insurance claim and entries in the Finance System are only approved by the Risk Management Director.

Recommendation was Fully-Implemented.

2. The department director will review and authorize payment for all claims.

Follow-up: As stated in #1 above, all insurance claims are now reviewed and authorized for payment by the Risk Management Director. The Insurance and Claims Administrator does not have access to enter or approve a claim.

Recommendation was Fully-Implemented.

3. Administrative staff will not be authorized to approve any payments.

Follow-up: As stated in #1 above, the Administrative Assistant only has access to enter payments into the Finance System. This was verified through Finance based on the access set up in the Finance System for the Administrative Assistant.

Recommendation was Fully-Implemented.

- 4. Computer access rights for administrative staff will be restricted to data entry only and will have no approval authority.**

Follow-up: The Administrative Assistant only has access to enter payments into the Finance System. This was verified through Finance based on the access set up in the Finance System for the Administrative Assistant.

Recommendation was Fully-Implemented.

- 5. Ensure all claims are for legitimate property owners and the damaged property has been investigated and known to actually exist.**

Follow-up: The Insurance and Claims Administrator will first ensure with the department involved that the claim is legitimate and determine liability. Once that is determined, the Insurance and Claims Administrator will verify owner addresses, legitimacy of the property and vehicle identification numbers (VIN's) through DCS Information Systems before payment is made. The entire insurance claim file is then reviewed by the Risk Management Director. Once the review is complete by the Risk Management Director, he will then sign the Claim Payment Documentation form.

Recommendation was Fully-Implemented.

- 6. Ensure all claims are for property owned by the claimant.**

Follow-up: As stated in #5 above, all property is verified through DCS Information Systems before payment is made.

Recommendation was Fully-Implemented.

- 7. All checks are mailed to the claimant and not picked up by City employees.**

During our review, we looked through ten (10) insurance files and found that six (6) checks were picked up by Risk Management and four (4) were mailed directly to the payee. The files that were picked up by Risk Management were exceptions to the rule since all of them involved the claimant(s) having representation by an attorney and requiring pickup; therefore controls will be put in place for these types of exceptions. Risk Management will work with Financial Services to put a procedure in place as to how to handle the exceptions when a check needs to be picked up.

Recommendation was Partially-Implemented.

- 8. All claims will be filed first with City Secretary.**

Follow-up: This is actually a new process that has been implemented. All claims are logged with the City Secretary first even if a claim comes to the Risk Management Department. If a claim is received by the Risk Management Department, the Insurance and Claims Administrator will ensure that the claim is

taken to the City Secretary's office for it to be logged with their office. Every claim is issued a claim number given by the City Secretary's office and scanned into the network. The original claim form is then given to Risk Management. In our review of insurance claims, we found all files to have a claim form and all were processed by the City Secretary's office.

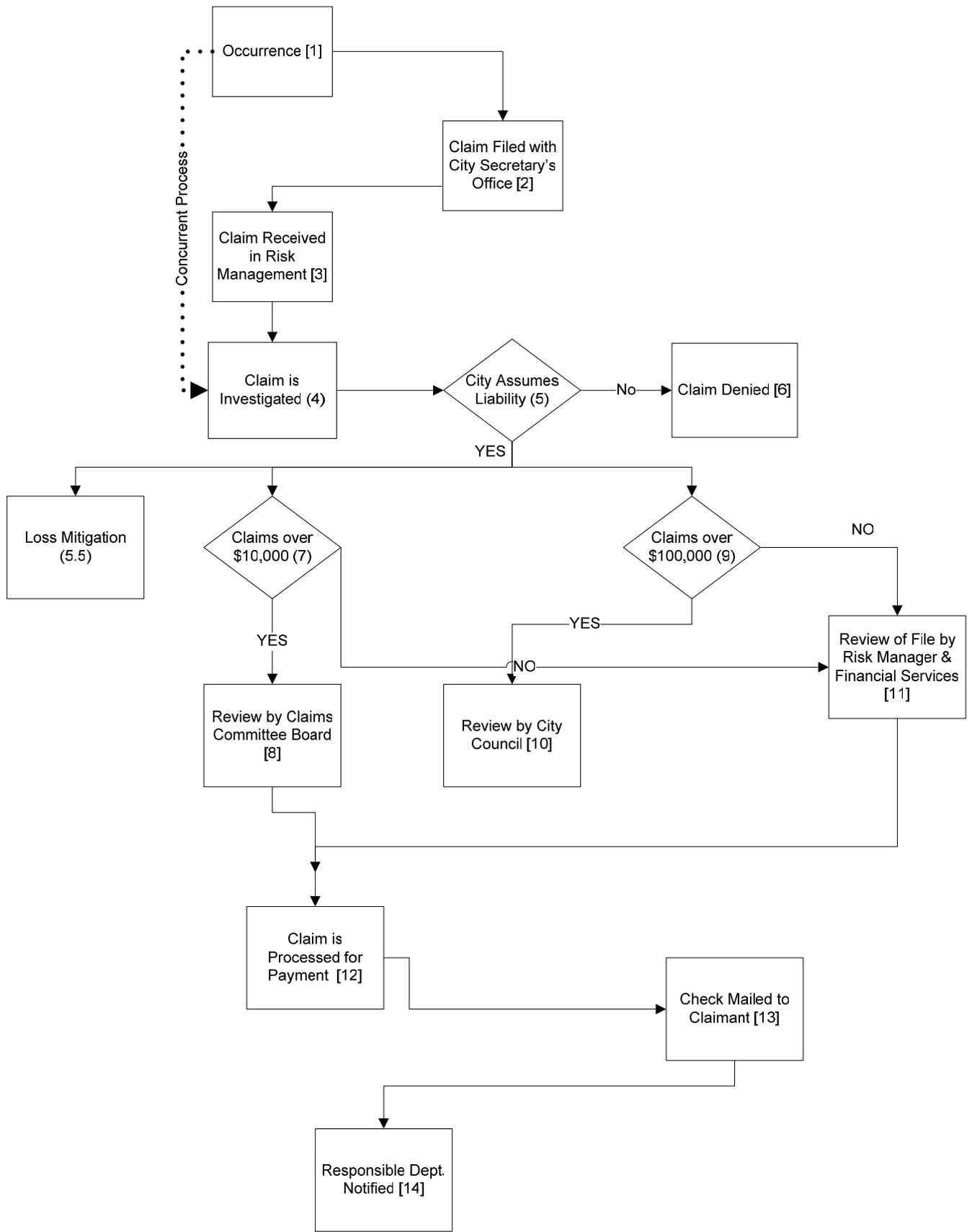
Recommendation was Fully-Implemented.

- 9. The affected department representative will be apprised of the final resolution of the claim. The manager will reconcile the claim to his records. All discrepancies will be immediately investigated by a party other than the employee receiving or investigating the claim.**

Follow-up: Once a claim has been reviewed and completed and resolution has been made, the Insurance and Claims Administrator will e-mail the affected department and will notify them of the outcome of the claim. In our review of insurance claims, we found all files to have documentation where the affected department was notified of the status of the claim.

Recommendation was Fully-Implemented.

Following is a flow chart to show all the new procedures and processes since the Fraudulent Payments for Insurance Claims was discovered.



1	Occurrence	An accident or damage to property occurs which involves a City Employee
2	Claim Filed with City Secretary's Office	The citizen who was involved in the accident or whose property was damaged files a Claim with the City Secretary's Office. The City Secretary's Office will stamp the Claim Form, give it a claim number and then scan it into their system. The original Claim Form is then forwarded on to Risk Management. If a claim does not go directly to the City Secretary's office and goes straight to Risk Management, Risk will ensure they take the claim to the City Secretary's Office to have it logged in.
3	Claim Received in Risk Management	The Claim is then received in Risk Management. It is logged into their database and it is then given a Risk Management Claim number. The Insurance and Claims Coordinator will review the claim to determine what department it belongs to. It is then forwarded to the department. The Insurance and Claims Coordinator ensures that they have an Accident Injury Report (AIR) on file if not; one is requested from the department.
4	Claim is Investigated	The Claim is investigated by the Insurance and Claims Coordinator. This involves getting with the affected department to determine what happened. Ensure there is an AIR filed if it involved a City vehicle. Obtains Police report if one is available. Researches statutory issues and consults with City Attorney's office if necessary. An entire packet is put together to be forwarded on to the Risk Management Director for his review.
5	City Assumes Liability	Once the claim is investigated, the City assumes liability
5.5	Loss Mitigation	Risk Management may initial loss mitigation such as arranging rental car, relocation of claimant, etc.
6	Claim Denied	If the City assumes no responsibility, then the claim is denied and the Insurance and Claims Coordinator will mail out a denial letter to claimant.
7	Claim over \$10,000	If the settlement for the claim is going to be over \$10,000, it is then taken to the Claims Committee for their review and approval.
8	Review of Claims Committee	When a settlement is going to be over \$10,000 it is taken to the Claims Committee for their review and input. The Claims Committee is comprised of Risk Management, City Attorney, Human Resources, Finance, Budget, City Secretary and City Manager's Office.
9	Claim over \$100,000	If the claim is over \$100,000, it is then taken to the City Council for their review and approval.
10	Review by City Council	When a settlement is going to be over \$100,000 it is taken to the City Council for their review and approval.
11	Review of File by Risk Manager & Financial Services	The entire packet with all information in regards to the claim and reviews of the Insurance and Claims Coordinator are then forwarded to the Risk Management Director for his review and approval. The Insurance and Claims Coordinator will fill out a Claim Payment Documentation form which will be in the file with his signature showing he has reviewed the file. The Claim Payment Documentation is then signed by the Risk Management Director once he has reviewed the file which is then forwarded to the Finance Department for review in their office and they also have to sign the Claim Payment Documentation. Once all the signatures are available, the vendor application can be input into the Finance System.
12	Claim is Processed	Before a claim is processed for payment, the Insurance and Claims Coordinator will verify the legitimacy of the property address, owner and

		VIN's. Once it is determined the information is legitimate, then a vendor application form is filled out to be able to process a payment. The vendor application is entered into the Finance System in the Finance Department. Payment is processed in the Finance System by the Administrative Assistant in Risk Management and the payment is then approved by the Risk Management Director. A City of Garland Release form is mailed out to claimant or attorney's office for release and discharge of the City of Garland and all its employees.
13	Check Mailed to Claimant	Once a check is processed, it is mailed to the claimant or their attorney who is representing them if one was hired by the claimant.
14	Responsible Dept. Notified	Once claim is processed and complete, the affected department will be notified of the status